BHK

BLACK HAWK Mining Inc.

BHK

2002 Annual Report

BHK

Mineral Reserves

	Tonnes	Gold Grade grams / tonne	Contained Gold ounces
Limon Mine			
Price = $325/oz; cut-off grade = 3.65 g/t			
Proven	268,600	6.6	56,800
Probable	705,000	6.0	137,100
Total	973,600	6.2	193,900

Mineral Resources

	Tonnes	Gold Grade grams / tonne	Contained Gold ounces
Limon Mine *(Undiluted)*			
Cut-off grade = 4.5 g/t			
Indicated	72,000	8.4	19,400
Inferred	918,800	7.4	217,200
Nicaragua Mineral Concessions *(Undiluted)*			
Cut-off grade = 4.5 g/t			
Indicated	775,400	8.2	205,300
Inferred	1,123,500	9.3	336,000
Hoyle Township *(Diluted)*			
Cut-off grade = 6.0 g/t			
Indicated	668,700	9.7	218,900
Inferred	972,700	10.2	319,000
Keystone/Lynn Lake			
Cut-off grade = 5.7 g/t			
Maclellan *(Diluted)*			
Measured	308,900	5.8	57,200
Indicated	300,100	6.1	59,000
TOTAL	609,000	5.9	116,200
Inferred	322,500	6.3	65,300
Nisku *(Undiluted)*			
Indicated	42,200	8.0	10,800
Inferred	72,700	7.6	17,800

Mineral Reserves and Mineral Resource Notes

1. Reported mineral reserves ("reserves") and mineral resources ("resources") have been calculated in accordance with definitions and guidelines adopted by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) on August 20, 2000.
2. The reserve and resource estimates are as at December 31, 2002. The Limon Mine resource does not include reserves. Daniel Goffaux, P. Eng. and Michael Gareau, P. Geol., supervised the preparation of the Limon Mine reserve and resource estimates. Messrs Goffaux and Gareau are employees of the Company and are "qualified persons" as defined by National Instrument 43-101.
3. Unlike reserves, resources do not have a demonstrated economic viability.

All dollar amounts in the Annual Report are stated in US dollars, unless indicated otherwise.

Annual and Special Meeting of Shareholders

Black Hawk Mining Inc. will hold its Annual and Special Meeting of Shareholders on Friday, June 20, 2003 at 4:30 p.m. at the Ontario Club, Commerce Court South, 30 Wellington Street West, Toronto, Ontario.

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BLACK HAWK Mining Inc.

2002 HIGHLIGHTS

- Produced 55,388 ounces of gold at a cash operating cost of $219 per ounce.
- Sold 57,083 ounces of gold at $272 per ounce.
- Replaced 76% of the mineral reserves processed in 2002.
- Generated cash flow from operations of $0.9 million ($0.01 per share).
- Retired debt of $0.8 million.

BLACK HAWK Mining Inc. is an international mining and exploration company that operates the Limon Mine, a gold mine in northwestern Nicaragua. Black Hawk also holds prospective gold/silver exploration properties in Nicaragua and Canada.

2003 OBJECTIVES

- Produce 53,000 ounces of gold at a cash cost operating cost of less than $225 per ounce.
- Improve productivity to reduce operating costs.
- Significantly advance exploration opportunities in the Limon District.
- Maintain environmental and safety compliance.
- Resolve Lynn Lake tax dispute.

REPORT TO SHAREHOLDERS

THE LIMON MINE

Black Hawk sold 57,083 ounces of gold from its Limon Mine in Nicaragua at an average price of $272 per ounce. The cash operating cost of the gold sold was $214 per ounce. Following labour unrest at the Limon Mine, which began in October 2002 and continued to mid-February 2003, the mine operated sporadically and production was severely curtailed while many of the fixed costs continued particularly as they relate to the support of the community. The Company, even in these adverse circumstances, limited the cash operating cost per tonne milled to $39 for the year, compared with $37 in 2001.

The Company and the union signed a two-year contract in February 2003. With the labour dispute resolved the Company has re-established normal operations.

FINANCIAL

The average London p.m. fix for gold during the year was $310 per ounce while Black Hawk's average realized gold price was $272 per ounce. The Company sold 49,920 ounces of gold at the call option price of $270 per ounce and 7,163 ounces of gold were sold at an average market price of $287 per ounce.

Net loss for the year ended December 31, 2002 was $3.2 million (CDN $5.0 million) or $0.02 per share (CDN $0.04 per share) compared to net income of $1.9 million (CDN $2.9 million) or $0.01 per share (CDN $0.02 per share) in 2001. Cash flow from operations was $0.9 million (CDN $1.4 million) or $0.01 per share (CDN $0.01 per share) for the year ended December 31, 2002. This compares with cash flow of $4.7 million (CDN $7.4 million) or $0.03 per share (CDN $0.05 per share) for the year ended December 31, 2001. The change in financial results was due primarily to the decrease in gold sales from 72,361 ounces to 57,083 ounces resulting from a decrease in ore grade and the two months of labour unrest at the Limon Mine.

The Company's long-term debt was repaid in 2002 from cash flow and a portion of the proceeds from the sale of Manantial Espejo. As at December 31, 2002, the Company had no long-term debt and had working capital of $3.9 million.

"In the coming year, Black Hawk will continue to place an emphasis on reducing its operating costs by increasing its productivity. The objective in 2003 is to produce approximately 53,000 ounces of gold and achieve a cash operating cost of less than $225 per ounce".

OUTLOOK

In the coming year, Black Hawk will continue to place an emphasis on reducing its operating costs by increasing its productivity. The objective in 2003 is to produce approximately 53,000 ounces of gold and achieve a cash operating cost of less than $225 per ounce. At December 31, 2002, call options for 4,160 ounces of gold at $270 per ounce and forward sale contracts for 15,270 ounces of gold at $282 per ounce were outstanding, representing 37% of the Company's expected gold sales in 2003.

Additional drilling on the resources at the Limon Mine resulted in replacement of approximately 76% of the reserves processed in 2002. The current reserves and resources at the Limon Mine extend the mine life to 2006. As a result of the labour unrest, the expanded exploration program planned for 2002 was rescheduled for 2003. In addition to the ongoing drilling to convert existing resources to reserves, the Company will also focus on increasing the reserves and resources in the immediate vicinity of the mill. The intent of these programs is to extend the mine's life.

Management has also been in discussions with the Manitoba Provincial Assessor with a view to resolving the Lynn Lake tax dispute on reasonable terms. The Company will continue to pursue this matter with the Provincial Assessor.

On behalf of the directors, management and shareholders of the Company, I would like to extend a sincere thanks to all of our employees for their efforts over this past year.

Garth A. C. MacRae
President and Chief Executive Officer

May 9, 2003

OPERATIONS REVIEW

LIMON MINE

Black Hawk acquired its 95% interest in the Limon Mine in May 1998.The remaining 5% is held by Inversiones Mineras S.A., a holding company representing the unionized mine workers in Nicaragua. Located 140 kilometres northwest of Managua, Nicaragua, the Limon Mine has been in continuous operation for more than 60 years. For purposes of comparison, operating results for all of 1998 have been presented.

PRODUCTION

During 2002, the Limon Mine produced 55,388 ounces of gold, a decrease of 14,963 ounces over 2001 due to mining of lower grade ore in 2002 and disruptions in production as a result of the labour unrest in the fourth quarter of 2002. A total of 314,567 tonnes of ore was milled for the year at an average grade of 6.2 grams of gold per tonne, compared with 349,415 tonnes of ore milled in 2001 with an average grade of 7.0 grams of gold per tonne. The mill recovery in 2002 was 86.8% compared with 86.3% in 2001.

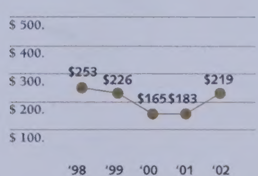
Cash operating costs for the year were $39 per tonne milled compared to $37 in 2001, a 5% increase. The cash operating costs per tonne milled for the year increased due to the lower production resulting from the labour unrest which began in October 2002 and was not resolved satisfactorily until mid-February 2003. However, prior to October the Company had reduced the cash operating costs per tonne milled. Despite milling fewer tonnes of ore for the first nine months of 2002, the cash operating cost was $36 per tonne milled, compared with $37 for the same period in 2001.

Limon Mine Historical Production Summary

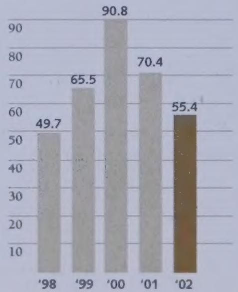
	*1998 **	*1999*	*2000*	*2001*	***2002***
Tonnes Milled	321,484	361,416	348,930	349,415	**314,567**
Gold Production *(ounces)*	49,658	65,483	90,829	70,351	**55,388**
Gold Grade *(grams per tonne)*	6.0	6.7	9.1	7.0	**6.2**
Cash Operating Cost per Ounce	$ 253	$ 226	$ 165	$ 183	**$ 219**

* Limon was acquired by Black Hawk on May 31, 1998. Amounts in this column are for the full year.

Limon
Cash Costs



Limon
Gold Production



"Despite milling fewer tonnes of ore, for the first nine months of 2002 the cash operating cost was $36 per tonne milled, compared with $37 for the same period in 2001".

The improvements achieved in operating cost reductions for the first nine months of 2002, were the result of the following:

- Lower underground hauling costs, achieved by increasing the size of the ore haulage truck boxes in order to maximize efficiencies in ramp haulage.
- Reduced costs of consumables and transportation.
- Improvements in maintenance practices.

In 2002, the Company adapted the 12,000 hectare Limon mining concession to the new mining code. The new concession has a term of 25 years expiring in February 2027. While the term of the new concession is five years shorter than the original concession, the taxes payable have been reset to year one, resulting in a decrease in the taxes from $8 per hectare to $0.25 per hectare.

OUTLOOK

The labour unrest continued to affect the production from the Limon Mine in the first quarter of 2003. However, in February 2003, the Company entered into a two-year contract subject only to a wage re-opener in February 2004. Mine operations are expected to be normal for the last three quarters of 2003.

The Company plans to mill 325,000 tonnes in 2003, yielding 53,000 ounces of gold. The cash operating costs for the year are expected to be approximately $37 per tonne of ore and less than US$225 per ounce of gold.

HEALTH, SAFETY & COMMUNITY CONTRIBUTION

The Company is committed to the health and safety of its employees and in 2000 established a health and safety committee with a mandate to identify and address potential risks and to implement a loss control training program. In 2002, the employees of the Company were recognized by the government of Nicaragua for excellence in safety. The Company will continue efforts to eliminate workplace accidents.

All the public roads and bridges in the area (approximately 27 km) are maintained by the Company and the Company provides free electricity to the residents of the local villages of El Limon and Santa Pancha.

ENVIRONMENT

The Company is committed to protecting the surroundings in which it operates as mining can be intrusive on the environment. In 2002, the Company maintained its best practices for the protection of the environment and conducted its operating activities in compliance with all regulations.

In 1999, the Company commenced a program of re-establishing vegetation on the slopes of the old tailings dam. Local tree species have been planted, as well as various agricultural crops such as tomatoes, green peppers, corn, bananas, watermelons, oranges and lemons. In 2002, re-vegetation activities continued and management began a project to test the viability of establishing commercial forestry in the area by planting 1,000 mixed-species hardwood trees, including mahogany.

EXPLORATION

LIMON MINE CONCESSION

Drilling of resources at the Talavera mining operation successfully replaced 76% of the reserves processed in 2002. The reserve addition at year-end was 319,567 tonnes with a grade of 4.7 grams of gold per tonne containing 48,316 ounces of gold.

The Company engaged the services of Mr. J. Hedenquist, Ph.D., an international consultant specializing in epithermal gold deposits, who confirmed the exploration potential of the Limon gold district for both vein extensions and new vein systems. Recommendations from Mr. Hedenquist provided the basis for a re-vitalized district-scale exploration program launched in the second quarter of 2002. Field activities included geological and structural mapping by Mr. P. Lewis, Ph.D., grid soil geochemistry, prospecting, trenching, sampling and drill testing.

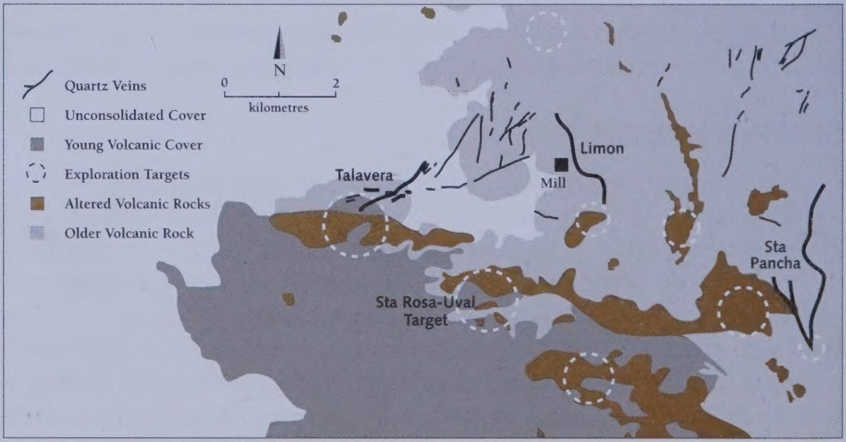
The Sta. Rosa-Uval area, located 3.0 kilometres south of the Limon mill, has emerged as the most promising area for the discovery of a new vein. Three steeply dipping, northeast trending structures with a combined strike length of over 2,500 metres have been identified as high priority targets for additional drill testing. Several groupings of quartz breccia boulders with high-grade gold values are located along the surface trace of two of the structures that also have associated quartz stringers with sporadic gold and silver values up to 0.5 and 8.5 grams per tonne, respectively, in trenches and shallow drill holes. The alteration and weak mineralization encountered at Sta. Rosa-Uval is comparable to that seen above the production levels within the structure that hosts the Talavera Sur and Ligia gold vein deposits.

The third target at Sta. Rosa-Uval is a geologically inferred structure with a coincident gold soil anomaly with values of over 100 parts per billion, and locally up to 1,800 parts per billion gold. This area also has a few scattered auriferous quartz-breccia boulders.

Several of the vein-extension targets were drill tested in 2002 with mixed results; some of these targets warrant testing at deeper levels.

In 2003, the Company plans to continue with the drill program interrupted by labour disputes in late 2002. This includes using in-house drilling capabilities and contracting the services of an international drilling company to undertake the deeper drilling required at Sta. Rosa-Uval, and possibly for the southern extensions of both the Limon and Talavera vein systems. Field investigations are ongoing in the broad area of altered rocks in the southern portion of the Limon Mine concession to advance conceptual ideas to drill-ready targets.

Limon Mine Concession



"Drilling of resources at the Talavera mining operation successfully replaced 76% of the reserves processed in 2002. The reserve addition at year-end was 319,567 tonnes with a grade of 4.7 grams of gold per tonne containing 48,316 ounces of gold".

Limon Mine Reserve Summary
(As at December 31, 2002)
Gold Price = US$325 per ounce; cut-off grade = 3.65 grams of gold per tonne

Category	*Tonnes*	*Gold Grade (grams per tonne)*	*Gold Ounces*
Proven	268,600	6.6	56,800
Probable	705,000	6.1	137,200
Total	973,600	6.2	194,000

Limon Mine Summary of Additional Resources
(As at December 31, 2002)
Undiluted; cut-off grade = 4.5 grams of gold per tonne

Category	*Tonnes*	*Gold Grade (grams per tonne)*	*Gold Ounces*
Indicated	72,000	8.4	19,400
Inferred	918,800	7.4	217,200

Daniel Goffaux, P. Eng. and Michael Gareau, P. Geol., supervised the preparation of the Limon Mine reserve and resource estimates. Messrs. Goffaux and Gareau are employees of the Company and are "qualified persons" as defined by National Instrument 43-101.

NICARAGUA MINERAL CONCESSIONS

The Company used the geological and geochemical information obtained from Newmont Overseas Exploration Limited (a 100% subsidiary of Newmont Mining Corporation) to re-configure its mineral concessions, minimizing land holding costs, while retaining areas that warrant additional exploration. Newmont withdrew in September 2002 from an option to earn an interest in the Company's exploration properties.

Application was made in December 2002 to reduce mineral concession holdings to 690 square kilometres from 1,736 square kilometres. This resulted in a reconfiguration to 13 smaller concessions from the previous four large concessions. The issuing of the official documents by the Nicaraguan government for the modified concessions was still pending at the end of April 2003. Concession taxes payable in 2003 increased three-fold to $0.75 per hectare.

Plans for 2003 will entail mapping, prospecting and sampling of a select number of the retained concessions to assess their exploration potential. All of the concessions will be reviewed and prioritized with respect to follow-up exploration programs.

The La India gold mining district has reported mine production from the 1930's to 1956 of 800,000 tonnes grading 9.5 grams of gold per tonne and 10.4 grams of silver per tonne. Reported mineral resources for the 9,330 hectare La India concession, located approximately 70 road-kilometres from the Limon mill, are shown in the following table.

Nicaragua Mineral Concessions
La India Resource Summary
(As at December 31, 2002)
Undiluted; cut-off grade = 3.0 grams of gold per tonne

Category	*Tonnes*	*Gold Grade (grams per tonne)*	*Gold Ounces*
Indicated	775,400	8.2	205,300
Inferred	1,123,500	9.3	336,000

The resource estimate is unchanged from 1999 but is restated to conform to the disclosure required by National Instrument 43-101. See additional notes on mineral resources on inside front cover.

"The Company is maintaining its interest in the Hoyle Township gold property in good standing with the expectation of realizing enhanced asset value at higher gold prices".

HOYLE TOWNSHIP GOLD PROJECT

The 100% owned Hoyle Township gold project is situated on the New Mine Trend in the Timmins area of Northern Ontario. The Hoyle Township property is located between Kinross Gold Corporation's Bell Creek and Hoyle Pond Mines. Drilling has confirmed that the mineralized structures extend across Black Hawk's property from the Schumacher III property to the west and the Owl Creek property to the east. In addition, a limited amount of deep drilling indicates a downward extension of the zones to at least the 700-metre level.

The Company is maintaining its interest in the property in good standing with the expectation of realizing enhanced asset value at higher gold prices.

Hoyle Township Resource Summary
(As at December 31, 2002)
Diluted; cut-off grade = 6.0 grams of gold per tonne

Category	*Tonnes*	*Gold Grade (grams per tonne)*	*Gold Ounces*
Indicated	668,700	9.7	218,900
Inferred	972,700	10.2	319,000

The resource from 1999 has been changed to reflect in-situ ounces as opposed to estimated recoverable ounces in compliance with the disclosure required by National Instrument 43-101. See additional notes on mineral resources on inside front cover.

KEYSTONE GOLD MINE

The Keystone Gold Mine, located at Lynn Lake, Manitoba, Canada, consists of the 1,300 tonne per day Lynn Lake mill, together with all facilities and equipment; the Farley Lake and Burnt Timber open pit gold mines; and an extensive area of mineral claims. Production from the Burnt Timber mine ended in 1996 and at the Farley Lake mine in April 2000.

In 2002, the Company spent approximately $485,000 on reclamation activities at the Farley Lake open pit mine and on care and maintenance of the Lynn Lake mill.

The mineral resources at Keystone include the Main, East Main, Dot-Rainbow and Nisku zones all located in the vicinity of the MacLellan mine, a former underground producing gold mine located near Lynn Lake. The geometry and configuration of this gold resource would require any future mining to be by underground methods which is not considered economical at current gold prices.

The core mineral properties in the Lynn Lake area were kept in good standing during 2002.

Keystone Resource Summary
(As at December 31, 2002)
Cut-off grade = 5.65 grams of gold per tonne

	Category	*Tonnes*	*Gold Grade (grams per tonne)*	*Gold Ounces*
MacLellan	Measured	308,900	5.8	57,200
(diluted)	Indicated	300,100	6.1	59,000
	Total	609,000	5.9	116,200
	Inferred	322,500	6.3	65,300
Nisku	Indicated	42,200	8.0	10,800
(undiluted)	Inferred	72,700	7.6	17,800

The resource estimate is unchanged from 1999 but is restated to conform to the disclosure required by National Instrument 43-101. See additional notes on mineral resources on inside front cover.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

Black Hawk Mining Inc. ("Black Hawk" or "the Company") is a natural resource company engaged in the acquisition, mining, exploration and development of mineral resource properties in North and Central America. Presently, Black Hawk's principal asset is a 95% interest in the Limon Mine, a gold producer in Nicaragua. In addition, the Company has interests in other advanced exploration and development properties, including the Hoyle Township gold project near Timmins, Ontario, and the Nicaraguan Mineral Concessions near the Limon Mine. The 100% owned Keystone Gold Mine at Lynn Lake, Manitoba, ceased operations in early 2000; closure and reclamation activities continue.

On January 1, 2002, the Company changed its accounting policy for revenue recognition and adopted new Canadian Institute of Chartered Accountants ("CICA") standards for foreign currency translations. These changes have been accounted for on a retroactive basis with prior years' amounts restated. On January 1, 2002, the Company also adopted the new CICA standards for stock-based compensation and other stock-based payments.

The United States ("US") dollar is the principal currency of measure in the Company's operations. All reported amounts are in thousands of US dollars, except for per ounce, per tonne and per share amounts.

RESULTS OF OPERATIONS

The Company's net loss for the year ended December 31, 2002 was $3,183, or $0.02 per share, compared with net income of $1,856, or $0.01 per share for the year ended December 31, 2001. The following table summarizes quarterly and annual results of operations for 2002.

2002 RESULTS OF OPERATIONS

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*Year*
Revenue	$ **4,125**	$ **3,863**	$ **4,446**	$ **2,498**	$ **14,932**
Mining costs and expenses	4,010	3,749	4,303	3,166	15,228
Income (loss) from mining operations	**115**	**114**	**143**	**(668)**	**(296)**
Administration expenses	166	159	279	231	835
Exploration expenses	206	197	227	132	762
Other (income) and expenses	(178)	202	71	1,253	1,348
Income and mining taxes expense (recovery)	3	(35)	(2)	(24)	(58)
Net loss for the period	$ (82)	$ (409)	$ (432)	$ (2,260)	(3,183)
Net loss per share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.02)

REVENUE

The sales of gold in 2002 and 2001 were as follows:

	2002	*2001*
	(ounces)	*(ounces)*
First Quarter	16,090	17,715
Second Quarter	14,726	21,005
Third Quarter	15,811	17,734
Fourth Quarter	10,456	15,907
Year	**57,083**	**72,361**

The average realized prices per ounce of gold sold in 2002 and 2001 were as follows:

		2002		*2001*
First Quarter	$	275	$	267
Second Quarter		270		268
Third Quarter		271		282
Fourth Quarter		272		273
Year	$	**272**	$	**272**

The average realized price of $272 in 2002 generated sales proceeds of $15,533. With the unrealized mark-to-market loss on forward gold sale contracts of $905 recognized for accounting purposes, and the amortization of the deferred gain on the sale of gold put options of $304, revenue totaled $14,932 for 2002. The average realized price of $272 in 2001 generated sales proceeds of $19,716. With the unrealized mark-to-market loss on forward gold sale contracts of $19 recognized for accounting purposes, the amortization of the deferred gain on the sale of gold put options of $360, and the loss on expiry of gold call options of $2, revenue totaled $20,055 for 2001.

The average London p.m. fix for gold in 2002 was $310 per ounce compared to Black Hawk's average realized price of $272 per ounce. The lower realized price resulted from the sale of 49,920 ounces at the Company's call option price of $270; 7,163 ounces were sold at an average market price of $287 per ounce.

MINING OPERATIONS

Cash operating costs per ounce of gold sold in 2002 and 2001 were as follows:

		2002		*2001*
First Quarter	$	199	$	175
Second Quarter		200		175
Third Quarter		215		197
Fourth Quarter		254		180
Year	$	**214**	$	**182**

Cash operating costs, which are calculated in accordance with The Gold Institute Production Cost Standard, a uniform format for reporting production costs on a per ounce basis, include direct mining expenses (all expenditures incurred at the site, including inventory charges, site specific corporate charges and in-mine drilling expenditures that are production related), third-party smelting, refining and transportation costs and by-product credits. Royalties, production taxes, and exploration expenditures are not included.

The Limon Mine produced 55,388 ounces of gold during 2002 compared with 70,351 ounces in 2001. Tonnes milled were 314,567 in 2002 compared with 349,415 in 2001. The average grade of ore milled was 6.2 grams in 2002 compared with 7.0 grams in 2001. The lower tonnage and mill feed grade resulted in a decrease in gold production of 21%. The cost per tonne milled increased to $39 in 2002 from $37 in 2001. The cash operating cost per ounce produced for 2002 was $219 compared to $183 for 2001. The higher cost per ounce was due to lower gold production.

On October 24, 2002, approximately two-thirds of the unionized employees at the Limon Mine went on an illegal strike. As a result of this labour disruption, gold production for the fourth quarter of 2002 was approximately 55% of the Company's budget and a loss from mining operations of $668 was incurred. The labour disruption was finally resolved on February 11, 2003 when the unionized employees who were on strike returned to work and a new collective agreement was signed.

Black Hawk's loss from mining operations was $296 for 2002 compared with income of $3,556 for 2001. The decrease in income resulted primarily from lower revenue due to lower gold sales.

EXPENSES

Corporate administration expenses were $835 in 2002, compared with $895 in 2001. The decrease in expenses was primarily due to a recovery of prior years' capital taxes.

Exploration costs in 2002 were $762 compared with $761 in 2001. The exploration expenses were incurred in Canada and Nicaragua.

Interest and other income was $26 in 2002 compared with $42 in 2001.

The gain on disposal of assets in 2002 was $37 compared with $308 in 2001. In 2002, gains of $14 on the sale of the Manantial Espejo project and $36 on the sale of surplus equipment from the Keystone Gold Mine were offset by a loss of $13 on the sale of land.

The foreign exchange loss of $146 in 2002 compares with a gain of $157 in 2001. The loss and gain resulted from the translation of amounts denominated in Canadian dollars and Nicaraguan cordobas to U.S. dollars. The value of the Canadian dollar, expressed in U.S. dollars, increased from $0.6279 at December 31, 2001 to $0.6331 at December 2002. The value of the Nicaraguan cordoba, expressed in U.S. dollars, decreased from $0.0723 at December 31, 2001 to $0.0682 at December 31, 2002.

Interest expense was $16 in 2002, compared with $166 in 2001, as all debt was repaid in 2002.

The write-down of mineral properties of $1,249 in 2002 compared with $354 in 2001. The 2002 write-down was for the Keystone Gold Mine ($1,074) and the Limon Mine ($175). The 2001 write-down was for the Manantial Espejo Project.

CASH FLOWS

Cash flow provided by operations before changes in non-cash working capital for 2002 was $908 compared with $4,736 in 2001 ($0.01 and $0.03 per share, respectively). The decreased cash flow in 2002 resulted principally from lower gold sales. Total cash flow provided by operating activities was $908 in 2002, compared to $5,484 in 2001. Working capital at the end of 2002 was $3,925 compared with $3,247 at the end of 2001.

Cash flows used in financing activities in 2002 were $767 compared with $3,050 in 2001. These activities in 2002 were the payment of $785 to reduce long-term debt, offset by $18 from the issuance of common shares.

Cash flows provided by investing activities in 2002 were $24 compared with cash flows used of $3,819 in 2001. The activities during 2002 were proceeds from disposal of assets of $1,954, which included $1,889 from the sale of the Manantial Espejo Project, offset by mineral property investments of $1,445 and reclamation costs of $485. The mineral property and fixed asset investments were $1,391 for mining equipment and tailing dam expansion at the Limon Mine and $54 for the advance royalty at the Hoyle Township Gold Project. The activities during 2001 were the proceeds from disposal of assets of $31, mineral property investments of $3,344 and reclamation costs of $506.

Cash and short-term investments increased by $165 in 2002 to end the year at $754 compared to a decrease in 2001 of $1,385 to end the year at $589.

LIQUIDITY AND FINANCIAL CONDITION

The cash position as of December 31, 2002 was $754 compared with $589 in 2001. Black Hawk has prepared a comprehensive budget for 2003 which indicates that the Company will meet its operating and capital obligations and will generate positive cash flow. While there are risks associated with the mining business that are not predictable, Black Hawk has forecast that its operations will continue to generate sufficient cash to support its mining and exploration activities.

OUTLOOK

At the Limon Mine in 2003, approximately 325,000 tonnes of ore at a grade of 5.9 grams of gold per tonne are expected to be mined and milled. Gold production, at a mill recovery rate of 87%, is expected to be approximately 53,000 ounces at a cash operating cost of less than $225 per ounce in 2003. The current reserves and resources will support the detailed mine plan to 2006.

The Limon mining district has produced 2.7 million ounces of gold to date and continues to be highly prospective. Plans for 2003 include an expansion of exploration activities within the Nicaragua Mineral Concession in addition to the ongoing drill programs that are directed at the conversion of resources to reserves.

The call option component of the Company's hedge position was put in place in 1998 as a requirement of the Company's credit facility. At December 31, 2002, call options for 4,160 ounces of gold at $270 per ounce with an expiry date in 2003 were outstanding and represent 8% of the Company's expected gold sales for 2003.

The forward sale component of the Company's hedge position at December 31, 2002 was 15,270 ounces of gold at $282 per ounce, which represent 29% of the Company's expected gold sales in 2003.

RISKS AND UNCERTAINTIES

In addition to operating risks inherent in mining, the profitability of Black Hawk's gold mining operation is dependent on, and subject to, fluctuations in gold prices and foreign currency exchange rates. Prices are influenced by consumption, supply, international production costs and world economic and political conditions. Fluctuations in gold prices and foreign exchange rates reflect world wide market conditions and cannot be controlled by the Company.

Black Hawk Mining Inc.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements, the notes thereto and other financial information contained in the annual report are the responsibility of the management of Black Hawk Mining Inc. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee of the Board of Directors meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities to the directors who approve the consolidated financial statements. The Audit Committee is comprised of three directors. Two of these directors are not employees or officers of the Company and one of these directors is an officer of the Company.

The consolidated financial statements have been audited by the independent auditors in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

G. MacRae   P.D. Caldwell

Garth A. C. MacRae
President and Chief Executive Officer

Paul D. Caldwell
Controller and Secretary

Toronto, Ontario
April 11, 2003

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Black Hawk Mining Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit, and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
April 11, 2003

Black Hawk Mining Inc.

CONSOLIDATED BALANCE SHEETS

As at December 31, 2002 and 2001

(in thousands of US Dollars)

		2002		2001 (restated - note 15)
Assets				
Current assets:				
Cash and cash equivalents	$	754	$	589
Accounts receivable and other		1,248		1,088
Inventories *(note 3)*		6,410		6,687
		8,412		8,364
Mineral properties and land *(note 4)*		9,541		13,839
Note receivable *(note 12)*		269		267
	$	18,222	$	22,470
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	4,159	$	3,455
Current portion of long-term debt *(note 5)*		–		622
Current portion of accrual for reclamation costs		328		736
Deferred gain on sale of gold put options *(note 6)*		–		304
		4,487		5,117
Accrual for reclamation costs		521		599
Long-term debt *(note 5)*		–		375
Future mining taxes *(note 10)*		400		400
		5,408		6,491
Contingencies and commitments *(notes 1 and 13)*				
Shareholders' Equity:				
Capital stock *(note 7)*		37,267		33,492
Contributed surplus *(note 7)*		–		3,757
Deficit		(24,453)		(21,270)
		12,814		15,979
	$	18,222	$	22,470

The accompanying notes form an integral part of these consolidated financial statements.

On behalf of the Board

Gordon F. Bub
Director

Leo A. Prendergast
Director

Black Hawk Mining Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2002 and 2001

(in thousands of US Dollars - except per share amounts)

		2002		2001 (restated - note 15)
Revenue:				
Gold sales	$	15,533	$	19,716
Mark-to-market loss on forward gold sale contracts		(905)		(19)
Amortization of deferred gain on sale of gold put options		304		360
Expiry of gold call options		–		(2)
		14,932		20,055
Mining costs and expenses:				
Cost of gold sales		12,209		13,137
Royalties and production taxes		739		868
Amortization		2,280		2,494
		15,228		16,499
(Loss) income from mining operations		(296)		3,556
Other operating expenses:				
Administration		835		895
Exploration		762		761
		1,597		1,656
(Loss) income before the undernoted		(1,893)		1,900
Other (income) and expenses:				
Interest and other income		(26)		(42)
Gain on disposal of mineral properties and land		(37)		(308)
Foreign exchange loss (gain)		146		(157)
Interest expense		16		166
Write-down of mineral properties *(note 4)*		1,249		354
		1,348		13
(Loss) income before income and mining taxes		(3,241)		1,887
Income and mining taxes (recovery) expense *(note 10)*		(58)		31
Net (loss) income for the year		(3,183)		1,856
Deficit - beginning of the year		(21,270)		(23,126)
Deficit - end of the year	$	(24,453)	$	(21,270)
(Loss) earnings per share - basic and fully diluted *(note 9)*	$	(0.02)	$	0.01
Weighted average number of common shares Outstanding		141,684,267		141,439,378

The accompanying notes form an integral part of these consolidated financial statements.

Black Hawk Mining Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2002 and 2001

(in thousands of US Dollars - except per share amounts)

	2002	2001 *(restated - note 15)*
Cash flows provided by (used in) operating activities:		
Net (loss) income for the year	$ (3,183)	$ 1,856
Adjustments for:		
Mark-to-market loss on forward gold sale contracts	905	19
Gain on sale of gold put options	–	664
Amortization of deferred gain on sale of gold put options	(304)	(360)
Amortization	2,280	2,494
Gain on disposal of assets	(37)	(308)
Unrealized foreign exchange (gains) losses	(2)	17
Write-down of mineral properties	1,249	354
Cash flows provided by operations	908	4,736
Changes in non-cash working capital	–	748
Cash flows provided by operating activities	908	5,484
Cash flows (used in) provided by financing activities:		
Repayment of short-term debt	–	(1,400)
Repayment of long-term debt	(785)	(2,666)
Proceeds from long-term debt	–	997
Issuance of common shares	18	19
Cash flows (used in) financing activities	(767)	(3,050)
Cash flows (used in) provided by investing activities:		
Proceeds from the disposal of mineral properties and land	1,954	31
Purchase of mineral properties	(1,445)	(3,344)
Reclamation costs, net of gold recovered from mill shut-down	(485)	(506)
Cash flows provided by (used in) investing activities	24	(3,819)
Net increase (decrease) in cash and cash equivalents	165	(1,385)
Cash and cash equivalents:		
Balance - beginning of the year	589	1,974
Balance - end of the year	$ 754	$ 589
Cash flows per common share provided by operations before changes in non-cash working capital	$ 0.01	$ 0.03
Cash interest paid	$ 16	$ 166
Cash income and mining taxes paid	$ –	$ 2

Supplemental disclosure of non-cash financing and investing activities

The following transactions were not reflected in the Consolidated Statement of Cash Flows during the year ended December 31, 2002:

The Company realized a non-cash gain of $84 on the disposal of the Manantial Espejo Project (note 4(d)) and the purchaser of the Manantial Espejo Project assumed debt of $212 *(note 4(d))*.

The following transactions were not reflected in the Consolidated Statement of Cash Flows during the year ended December 31, 2001:

The Company realized a non-cash gain of $297 on the disposal of the Sulphurets Project (note 4(d)) and assumed debt of $212 to purchase additional surface rights for the Manantial Espejo Project *(note 4(d))*.

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2002 and 2001

(in US Dollars - except as noted)

1. BASIS OF PRESENTATION

Black Hawk Mining Inc. ("the Company") is in the business of mining and producing precious metals, exploring and developing mineral properties, and acquiring properties that it believes contain mineralization that is, or will be in the future, economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration and development costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing for its operations, and upon future precious metal prices allowing for profitable production.

2. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements of the Company, expressed in US dollars, have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and those of its subsidiaries.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The assets and liabilities which require management to make material estimates and significant assumptions in determining current value include accounts receivable, inventories, mineral properties, accrued liabilities, accrual for reclamation costs and future mining taxes. Actual results may differ from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and term deposits with maturities of less than three months.

(d) Inventories

Gold in dore and refined form are stated at the lower of production cost and net realizable value. Materials and supplies are stated at the lower of average cost and replacement cost.

(e) Mineral properties and land

Mineral properties:

(i) *Producing properties:*

Property, plant and equipment are carried at cost less accumulated amortization and are amortized on a unit-of-production basis over estimated mineral reserves.

(ii) *Deferred exploration and development:*

Costs of major exploration projects on properties with development potential are deferred, on a project basis, until the economic viability of the project is determined. The costs of projects that achieve commercial production are transferred to producing properties. Other exploration costs are expensed as incurred.

Annual reviews of all operating mines and development properties are conducted. The carrying values of mines and properties, which are not assessed as economically viable, are written down to their estimated net recoverable amount.

Land:

Land is carried at cost.

(f) Reclamation costs

An estimate for the future costs of site restoration of mining interests, including the removal of production facilities at the end of their useful lives, is made based upon engineering estimates that consider the anticipated method and extent of site reclamation required to meet current legal and industry standards. If required, a provision for the estimated costs is charged to operations over the lives of the mining interests on a unit-of-production basis; reclamation costs incurred are charged against this provision. The effects of changes in regulations and cost assumptions are recognized when determined.

(g) Hedging transactions

In order to protect against the effect of fluctuating gold prices, the Company may enter into hedging transactions to manage the price risk related to future production. Hedging transactions include forward sale and option contracts. The gains or losses on the early settlement of hedge contracts are deferred and brought into income based upon the originally designated delivery dates.

(h) Translation of foreign currencies

All of the Company's foreign operations are classified as integrated for foreign currency translation purposes and thus all transactions denominated in foreign currencies are recorded in US dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date.

Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of income for the current period.

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") for foreign currency translation. These new recommendations eliminate the practice of deferring and amortizing unrealized translation gains and losses on foreign currency denominated monetary items that have a fixed or ascertainable life extending beyond the end of the fiscal year following the current reporting period. Foreign exchange gains and losses arising on translation of these monetary items are now included in the current period. The adoption of the new recommendations has been applied retroactively, with prior year amounts restated (note 15).

(i) Revenue recognition

Effective January 1, 2002, the Company changed its accounting policy for revenue recognition such that revenue is recognized upon delivery to third party customers. Previously, revenue was recognized at the time of production. The adoption of this new policy has been applied retroactively, with prior year amounts restated (note 15).

(j) Stock-based compensation and other stock-based payments

Effective January 1, 2002, the Company adopted the recommendations of the CICA for stock-based compensation and other stock-based payments. These recommendations establish standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The recommendations require all stock-based awards made to non-employees to be measured and recognized using a fair value-based method. The recommendations encourage the use of a fair value-based method for all awards granted to employees and directors, but only require the use of a fair value-based method for direct award of stock, stock appreciation rights, and awards that call for settlement in cash or other assets.

The Company has elected not to use the fair value method of accounting for stock options. As a result, it does not recognize compensation expense for the fair value of the options issued to its employees or directors in the Statement of Operations. No stock-based awards will be made available to non-employees.

(k) Income and mining taxes

The Company accounts for income and mining taxes in accordance with the liability method. The determination of future tax assets and liabilities is based on the differences between the financial statement and the income tax bases of assets and liabilities, using substantively enacted tax rates in effect for the period in which the differences are expected to reverse. Future tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

3. INVENTORIES

	2002	2001
	(in thousands)	
Gold in dore and refined form	$ 1,135	$ 1,203
Materials and supplies	5,275	5,484
	$ 6,410	$ 6,687

4. MINERAL PROPERTIES AND LAND

	2002	2001
	(in thousands)	
Producing properties:		
Limon Mine		
Property, plant and equipment	$ 16,094	$ 14,880
Accumulated amortization	(9,310)	(7,031)
	6,784	7,849
Keystone Gold Mine		
Property, plant and equipment	11,250	11,250
Accumulated amortization	(11,250)	(10,176)
	–	1,074
	6,784	8,923
Deferred exploration and development:		
Hoyle Township Gold Project	2,743	2,694
Manantial Espejo Project	–	2,166
	2,743	4,860
Land	14	56
	$ 9,541	$ 13,839

(a) Limon Mine

The Limon Mine includes a 1,000 tonne per day mill and underground mining operations located approximately 140 kilometres north of Managua, Nicaragua. Gold production from this mine is subject to a 3% NSR royalty. During 2002, the Company recorded a write-down at the Limon Mine of $175,948 for certain mineral properties.

(b) Keystone Gold Mine

The Keystone Gold Mine includes a mill in Lynn Lake, Manitoba and the Farley Lake open pit. Mining operations ceased in November 1999 and milling of stockpiled ore ceased in April 2000. The mill has been put on a care and maintenance basis. During 2002, the Keystone Gold Mine's carrying value of $1,073,698 was fully written off.

(c) Hoyle Township Gold Project

The Hoyle Township Gold Project is an exploration property located near Timmins, Ontario adjacent to a producing mine. The project is subject to a 2% NSR royalty, increasing to 3% after capital payback, should the project be brought into production.

(d) Manantial Espejo Project

The Manantial Espejo Project (the "Project") is an exploration property located in southern Argentina and is subject to certain royalties.

In 1998, the Company entered into an agreement with Silver Standard Resources Inc. ("Silver Standard") whereby Silver Standard could earn a 50% interest in the Company's 80% interest in the Project by making cash payments of $1.5 million to the Company and incurring exploration expenditures on the property of $4.5 million by December 31, 2001. In 2001, Silver Standard was granted an extension to December 31, 2002 for the exploration expenditures.

On July 4, 2001, the Company purchased additional surface rights for the Project for $575,000, payable over three years. Silver Standard, pursuant to its earn-in agreement with the Company, entered into a funding agreement to pay one half of the total cost of these rights. The Company paid $75,000 in 2001.

On August 30, 2001, Silver Standard acquired the third party's 20% interest in the Project. The vendor agreed to defer the payment of certain advance royalties and retained a 3% royalty on certain future production.

On September 5, 2001, the Company acquired a 10% interest in the Project from Silver Standard, in exchange for the Company's 40% interest in the Sulphurets Project in British Columbia and a cash payment by Silver Standard of $24,738. In addition, the Company retained a net smelter return royalty on certain mineral resources of the Sulphurets Project. The consideration received for the Sulphurets Project was valued at $321,953, which was recognized as a gain, as the carrying value of the Sulphurets Project had been previously written off.

The Company's 80% interest in this Project was subject to a further 1.5% NSR royalty, pursuant to an agreement with Repadre Capital Corporation ("Repadre"), a significant shareholder of the Company. Under this agreement the Company was obligated to pay CDN$1,250,000 to Repadre if no decision to proceed with commercial production of the Project was made on or before December 31, 2001. As no production decision was made, the Company recorded a liability of $784,880 (CDN$1,250,000) to Repadre as at December 31, 2001, which was repaid in 2002.

The carrying value of the Company's interest in the Project was written down by $354,618 to its net realizable value as of December 31, 2001.

On March 27, 2002, the Company sold its interest in the Project to Silver Standard for $708,750 in cash and common shares of Pan American Silver Corp. valued at $1.2 million. In addition, Silver Standard assumed the Company's obligation of $212,500 related to the additional surface rights acquired for the Project. The Pan America Silver common shares were sold in April 2002 for proceeds of $1.2 million.

5. DEBT

(a) The Company has a credit facility that provides margin for bullion trading, secured by a first charge on the Company's assets. The balance of $1,400,000 outstanding at December 31, 2000 from a term loan provided under this credit facility was repaid in 2001. The credit facility has a margin line of credit of $3,000,000. At December 31, 2002, the line of credit had been reduced by $1,248,246 as a result of the negative market value of the Company's hedge position (note 11).

(b) During 2001, the Company repaid a 7% convertible debenture in the amount of CDN $4,000,000 ($2,666,400).

6. DEFERRED BULLION REVENUE

On April 11, 2001, the Company sold its put options on 81,000 ounces of gold and realized a gain of $663,850. The gain was deferred for financial reporting purposes and was brought into income based on the original expiry dates of the put options, which were from April 30, 2001 to December 31, 2002. In the accompanying financial statements, $304,177 of the gain has been included in 2002 revenue (2001 - $359,673).

7. CAPITAL STOCK

Authorized capital stock of the Company is comprised of an unlimited number of special shares issuable in series, none of which are issued, and an unlimited number of common shares.

A summary of transactions in the Company's share capital account in 2001 and 2002 is as follows:

	Number of Common Shares	*Amount*
		(in thousands)
Balance, December 31, 2000	**141,236,613**	**$ 33,473**
Employee share purchase plan *(a(i))*	113,951	7
Exercise of stock options	250,000	12
	363,951	19
Balance, December 31, 2001	**141,600,564**	**33,492**
Employee share purchase plan *(a(i))*	163,850	14
Exercise of stock options	66,667	4
Contributed surplus *(b)*	–	3,757
	230,517	3,775
Balance, December 31, 2002	**141,831,081**	**$ 37,267**

(a) The Company has an Employee Share Incentive Plan, which includes a Share Purchase Plan and a Stock Option Plan.

(i) The Share Purchase Plan allows employees to purchase common shares of the Company. Under the plan, employees may contribute up to 5% of their monthly salary, which is matched by the Company. The total contributions are invested in common shares at the end of each calendar quarter, based on the weighted average trading price for the quarter. The number of shares approved for future issuance under the Share Purchase Plan at December 31, 2002, is 679,894.

(ii) The Stock Option Plan provides for options to be granted to directors, officers and employees for the purchase of common shares. Options are granted at prices equal to the closing market price on the trading day prior to the date of the grant, and are exercisable up to 10 years after the date of the grant. Generally, options are vested within 2 years of the date of the grant. No compensation expense is recognized for this plan when stock options are issued. Shares issued under the plan are recorded in share capital at the issue price. The number of shares approved for future issuance under the Stock Option Plan at December 31, 2002, was 9,773,333, of which options for 3,960,000 shares have been granted.

A summary of the status of the stock option plan and changes during 2001 and 2002 is presented below:

	Number of Options	*Weighted -Average Exercise Price (CDN$)*
Balance, December 31, 2000	**5,335,001**	**$ 0.56**
Cancelled/Expired	(1,495,001)	0.99
Exercised	(250,000)	0.08
Granted	710,000	0.10
	(1,035,001)	
Balance, December 31, 2001	**4,300,000**	**0.36**
Cancelled/Expired	(373,333)	0.73
Exercised	(66,667)	0.09
Granted	100,000	0.20
	(340,000)	
Balance, December 31, 2002	**3,960,000**	**$ 0.32**

The following tables summarize further information about the stock options outstanding at December 31, 2002:

OPTIONS OUTSTANDING

Range of Exercise Prices (CDN$)	*Number Outstanding at December 31, 2002*	*Weighted-Average Remaining Contractual Life In Years*	*Weighted-Average Exercise Price (CDN$)*
$0.08 to $0.20	2,620,000	7.1	$ 0.12
$0.24 to $0.80	1,015,000	4.0	0.56
$1.00 to $1.25	325,000	1.4	1.23
$0.08 to $1.25	**3,960,000**	**5.8**	**$ 0.32**

OPTIONS EXERCISABLE

Range of Exercise Prices (CDN$)	*Number Exercisable at December 31, 2002*	*Weighted-Average Exercise Price (CDN$)*
$0.08 to $0.20	2,366,667	$ 0.12
$0.24 to $0.80	1,015,000	0.56
$1.00 to $1.25	325,000	1.23
$0.08 to $1.25	**3,706,667**	**$ 0.34**

b) On June 26, 2002, the shareholders of the Company confirmed and ratified a special by-law, as adopted by the Board of Directors, whereby the contributed surplus was reduced by $3,756,704 and added to the stated capital of the Company.

c) In April 2000, a warrant to purchase 100,000 common shares of the Company exercisable at CDN$0.08 per share expiring July 25, 2003 was issued to Standard Bank London Limited in connection with the extension of the due date for the revolving credit facility. In 1998, a warrant to purchase 835,373 common shares of the Company exercisable at CDN$0.25 per share expiring December 31, 2003, was issued in relation to the late payment of royalties. As at December 31, 2002, no warrants have been exercised.

8. STOCK-BASED COMPENSATION

The Company's stock option plan is described in Note 7. The Company has elected not to use the fair value method of accounting and does not recognize compensation expense for its share-based compensation. If compensation expense for the stock-based compensation for employees had been determined based on the fair value of awards granted on or after January 1, 2002, the Company's net loss for the year ended December 31, 2002 would have increased by $3,602, which has no material effect on the loss per share.

The fair value of each option grant is estimated on the balance sheet date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected life in years:	10
Risk free interest rate:	5.19%
Expected volatility:	81%
Dividend yield:	0%

9. EARNINGS PER SHARE

Earnings per share ("EPS") are calculated using the weighted average number of common shares outstanding during the period. The diluted EPS is calculated using the treasury method. The calculation of diluted EPS assumes that employee stock options are exercised at the beginning of the period, or at the time of issue, if later. Employee stock options with an exercise price greater than the average market price of the common shares were not included in the calculation of diluted EPS, as the effect would be anti-dilutive. The average market price of the common shares traded during the year ended December 31, 2002 was CDN$0.14 (2001: CDN$0.12).

	2002	*2001*
Weighted-average number of common shares outstanding during the year	141,684,267	141,439,378
Add: In-the-money options and warrants as if issued, exercised and outstanding at the beginning of the year, net of assumed shares purchased	567,082	331,564
Weighted-average number of common shares outstanding used for diluted EPS	142,251,349	141,770,942

Due to the relatively small increase in the weighted-average number of common shares outstanding used for the calculation of diluted EPS, the diluted EPS reported are the same as the basic EPS reported.

10. INCOME AND MINING TAXES

(a) The recovery of and provision for income and mining taxes is as follows:

	2002	*2001*
	(in thousands)	
Income taxes (recovery) provision		
Current		
Canada [(1)]	$ (58)	$ 31
Foreign	–	–
Mining taxes		
Current - Canada	–	–
Deferred - Canada	–	–
	$ (58)	$ 31

[(1)] Represents Large Corporations Tax (capital tax)

(b) The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective rate on income is as follows:

	2002	2001
Combined statutory rate	41.6%	43.0%
	(in thousands)	
Expected income tax (recovery) provision at Statutory rate	$ (1,349)	$ 728
Difference in foreign tax rates	(1,345)	(2,506)
Non- recognition of benefit of losses	2,694	1,778
Large corporations tax (recovery) provision	(58)	31
	$ (58)	$ 31
Effective tax (recovery) provision rate	**(1.8)%**	**1.8%**

(c) The Company has operating losses of prior years available to offset future taxable income in Canada and Nicaragua. Certain of these losses are restricted in their utilization to income from specific operating activities and expire as follows:

	Amount	
	Canada	*Nicaragua*
Expiry	*(in thousands)*	
2003	$ 1,676	$ 11,605
2004	1,744	7,314
2005	1,929	11,098
2006	2,396	12,405
2007	2,815	–
2008	1,513	–
2009	1,155	–
	$ 13,228	$ 42,422

The potential benefit of these losses has not been recognized in the consolidated financial statements.

(d) The future mining tax liability of $400,000 relates to mining taxes. In addition, for Canadian income tax purposes, the Company has temporary differences of $6,886,658 (Cdn$10,878,165), which do not expire and relate to mineral properties and fixed assets; the benefit of these differences has not been recognized in the consolidated financial statements as the "more likely than not" criteria for realization has not been met.

11. FINANCIAL INSTRUMENTS

The Company's short-term financial instruments, comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are carried at cost which, due to their short-term nature, approximates their fair value. Long-term monetary assets and liabilities are fair valued by discounting cash flows at current market rates. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value.

Credit Risk

The Company is subject to credit risk through trade receivables. Under the terms of the credit facility *(note 5(a))*, all of the Company's gold production must be sold to the lender while drawdowns against the margin line of credit are outstanding. The Company does not consider the credit risk associated with the financial instruments to be significant.

Foreign Exchange Risk

The Company operates using the Canadian dollar, Nicaraguan cordoba and the US dollar, and as such may be negatively affected by fluctuations in foreign exchange rates. The Company manages this risk by minimizing the number of transactions that result in the settlement currency differing from the currency of the initial transaction. In addition, the Company's sales are denominated in US dollars, while a significant percentage of its expenses are denominated in non-US dollars. This exposes the Company to increased volatility in earnings due to fluctuations in foreign exchange rates. The Company does not enter into derivative instruments to hedge against this risk.

Interest Rate Risk

The Company is not currently exposed to interest rate risk due to the repayment of all its debt obligations.

Commodity Price Risk

The profitability of the Company is directly related to the market price of gold. The Company may reduce price risk by fixing the price of gold for a significant proportion of its production. The main hedging tools available to protect against price risk include forward contracts and options. Various strategies are available using these tools including no-cost minimum/maximum options, spot deferred contracts and forward sale contracts.

The Company periodically enters into forward sale and option contracts to effectively provide a minimum price for a portion of its inventories and future production. Gains and losses are recognized on these contracts when the related product is sold.

The Company has hedged production revenue through forward sale contracts and the sale of call options on gold. The sale of call options in 1998 resulted from requirements under the credit facility described in note 5*(a)*. A summary of the hedge position, as at December 31, 2002, is as follows:

HEDGE POSITION

Forward Sale Contracts (with delivery dates in 2003)	
- Ounces	15,270
- Price per ounce	$282
Call Options Sold (with expiry date in 2003)	
- Ounces	4,160
- Price per ounce	$270

The market value of the hedge position at December 31, 2002 is as follows:

Forward sale contracts	$ (923,855)
Call options sold	(324,391)
	$ (1,248,246)

The negative market value of the forward sale contracts has been recognized in the financial statements. The negative value of the call options sold has not been recognized in the financial statements. The market value of the hedge position fluctuates as market conditions change.

12. RELATED PARTY TRANSACTIONS

(a) Note receivable at December 31, 2002 and 2001 is a loan of CDN $425,000 (2002 - $269,055, 2001 - $266,858) outstanding from a director of the Company. This loan is non-interest bearing, is repayable on or before September 5, 2006 and is secured by 1,000,000 common shares of the Company, some of which were purchased with the proceeds of the loan. The fair value of the loan at December 31, 2002, determined by discounting cash flows at current market rates, was $198,144.

(b) Royalties and production taxes at December 31, 2002 include a royalty of $534,373 (2001 - $534,494) paid to Repadre Capital Corporation, a significant shareholder. The royalty was settled by payment in gold.

(c) Administrative expense at December 31, 2002 includes a management fee of $75,000 (2001 - $50,000) from Dundee Bancorp Inc., a significant shareholder. Included in accounts payable at December 31, 2002 is $75,000 related to these fees.

(d) In October 2001, the Company engaged Breakwater Resources Ltd. ("Breakwater"), a company under common significant influence, to provide purchasing and logistics services for the Limon Mine. Cost of gold sales at December 31, 2002 includes fees of $126,425 (2001 - $31,762) arising from this agreement. Included in accounts payable at December 31, 2002 is $31,670 related to these fees.

(e) On April 1, 2002, the Company engaged Breakwater as manager of the Limon Mine. Breakwater, with its operations in Honduras, is in close proximity to the Limon Mine and provides the services of experienced mining personnel as required. Breakwater will receive a fee of $100,000 per annum, reimbursement of certain expenses, and is entitled to a bonus if costs are reduced by prescribed amounts. Cost of gold sales at December 31, 2002 includes costs of $128,589 (2001 - nil) arising from this agreement. Included in accounts payables at December 31, 2002 is $53,237 related to these costs.

(f) During 2002, the Company purchased materials and supplies from Breakwater for $585,596. The cost of these purchases is included in cost of gold sales or inventory. Included in accounts payable at December 31, 2002 is $489,885 related to these purchases.

(g) Administrative expense at December 31, 2002 includes consulting and other fees, and rent of $61,190 (2001 - $51,215) from Breakwater. Included in accounts payable at December 31, 2002 is $5,730 related to these costs.

13. CONTINGENCIES AND COMMITMENTS

(a) The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company believes that its operations comply in all material respects with all applicable laws and regulations. The Company records provisions for post-closure environmental obligations based on management's estimate of such costs. Such estimates are, however, subject to change based on negotiations with regulatory authorities and changes in laws and regulations. The effect of any such changes are recognized currently.

(b) The Company is involved in various legal actions in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse effect on the Company's financial position or its results.

(c) The Company has pledged a bond of CDN$250,000 with respect to a legal action initiated by the Town of Lynn Lake in the Province of Manitoba. While the potential liability to the Company is not determinable at this time, all or portion of the bond could be forfeited. The Company has also issued a chattel mortgage on the Lynn Mill to the Town of Lynn Lake in this regard.

In May 2002, the Town of Lynn Lake claimed an amount of Cdn$6,056,573 for municipal tax arrears and penalties related to the Company's assets, for the years 1997 to 2000. Operations at Lynn Lake ceased in 2000. The Company has applied to the court for an order quashing the assessments and the tax bills on the grounds that there were no valid assessments or tax bills. In addition to challenging the assessment process, the Company is of the view that the amounts at which the assets were assessed are not reasonable. Discussions between the Company and the Manitoba Provincial Assessor are ongoing as the Company endeavours to resolve this matter on reasonable terms. The rights to appeal to the Municipal Board of Manitoba have been fully preserved and if necessary, will be pursued.

(d) On May 9, 2002, the Company received a statement of claim from a US refinery, in connection with a Chapter 11 proceeding, alleging preferential distributions of gold and silver. In the opinion of management the allegations are without merit.

14. SEGMENT INFORMATION

The Company's operations involve the acquisition, exploration, development and operation of mining properties in North and Central America. The Company is organized into three operating segments: Limon Mine (Nicaragua), Exploration (Canada and Nicaragua) and Corporate. The assets of the Keystone Gold Mine, which ceased operating in April 2000, are included in the Corporate segment. The Company evaluates performance based on income or loss from mining operations before income taxes, not including non-recurring gains and losses and foreign exchange gains and losses. Although all of the Company's revenues are currently from the sale of gold to one customer, the Company is not economically dependent on that customer.

(i) **Segment Balance Sheets**

(Thousands of dollars)	*As at December 31, 2002*			
	Reportable Operating Segments			
	Limon Mine	*Exploration (Note 1)*	*Corporate*	*Total*
Assets	$ 14,447	$ 2,743	$ 1,032	$ 18,222
Capital Expenditures	$ 1,390	$ 50	$ 5	$ 1,445

Note 1 – The Company's exploration properties, to which costs are presently being capitalized, are in Canada.

(Thousands of dollars)	*As at December 31, 2001*			
	Reportable Operating Segments			
	Limon Mine	*Exploration (Note 1)*	*Corporate*	*Total*
Assets	$ 15,302	$ 4,860	$ 2,308	$ 22,470
Capital Expenditures	$ 2,136	$ 1,208	$ –	$ 3,344

Note 1 – The Company's exploration properties, to which costs were capitalized, are in Argentina ($2,166) and Canada ($2,694).

(ii) **Segment Statements of Operations**

(Thousands of dollars)	*For the year ended December 31, 2002*			
	Reportable Operating Segments			
	Limon Mine	*Exploration (Note 1)*	*Corporate*	*Total*
Revenue	$ 14,932	$ –	$ –	$ 14,932
Amortization	$ 2,280	$ –	$ –	$ 2,280
Exploration	$ –	$ 762	$ –	$ 762
Interest Income	$ –	$ –	$ (26)	$ (26)
Interest Expense	$ –	$ –	$ 16	$ 16
Net (loss)	$ (471)	$ (762)	$ (1,950)	$ (3,183)

Note 1 – The Company expensed exploration costs incurred in Canada ($37) and Nicaragua ($725).

(Thousands of dollars)	*For the year ended December 31, 2001*			
	Reportable Operating Segments			
	Limon Mine	*Exploration (Note 1)*	*Corporate*	*Total*
Revenue	$ 20,055	$ –	$ –	$ 20,055
Amortization	$ 2,494	$ –	$ –	$ 2,494
Exploration	$ –	$ 761	$ –	$ 761
Interest Income	$ –	$ –	$ (42)	$ (42)
Interest Expense	$ –	$ –	$ 166	$ 166
Net income (loss)	$ 3,555	$ (1,116)	$ (583)	$ 1,856

Note 1 – The Company expensed exploration costs incurred in Canada ($54) and Nicaragua ($686) and the United States ($21).

15. RESTATEMENT OF PRIOR YEARS' AMOUNTS

The adoption of a new CICA recommendation for the translation of foreign currencies and a new accounting policy for revenue recognition have been applied retroactively (notes 2(h) and (i)), with prior years' amounts restated as follows:

Balance Sheet

	As at December 31, 2001	
	As Previously Reported	*As Restated*
	(in thousands)	
Bullion settlements receivable	$ 1,749	$ –
Accounts Receivable	$ 984	$ 1,088
Inventories	$ 5,484	$ 6,687
Deferred foreign exchange loss	$ 7	$ –
Total assets	$ 22,919	$ 22,470
Deficit	$ (20,821)	$ (21,270)
Total liabilities and Shareholders' equity	$ 22,919	$ 22,470

Statements of Operations and Deficit

	Year ended December 31, 2001	
	As Previously Reported	*As Restated*
	(in thousands)	
Revenue	$ 19,573	$ 20,055
Cost of gold sales	$ 12,897	$ 13,137
Income from mining operations	$ 3,314	$ 3,556
Foreign exchange gain	$ (158)	$ (157)
Net income	$ 1,615	$ 1,856
Deficit - beginning of the period	$ (22,436)	$ (23,126)
Deficit - end of the period	$ (20,821)	$ (21,270)

CORPORATE INFORMATION

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Chairman

Garth A. C. MacRae*
President and
Chief Executive Officer

Douglas R. Beaumont

Colin K. Benner

Donald K. Charter

Joseph F. Conway*

Leo A. Prendergast*

* Member of the
Audit Committee

Officers

Gordon F. Bub
Chairman

Garth A. C. MacRae
President and
Chief Executive Officer

Daniel P. Goffaux
Vice President, Corporate
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Michael B. Gareau
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Paul D. Caldwell
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Toronto, Ontario

Stock Exchange Listing

The Toronto Stock
Exchange
Symbol: **BHK**

Conversion Table

metre (m)	3.2808 feet
kilometre (km)	0.621 mile
tonne (t) 1.102 tons =	2,204.6 pounds
gram (g)	0.0322 troy ounces
gram per tonne (g/t)	0.0292 troy ounces per ton
hectare (ha)	2.47 acres
ounce (oz)	31.1 grams

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